



# ESG Policy

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# Our ESG philosophy

At LGT Capital Partners (LGT CP), we believe asset managers have a responsibility to make investments in a way that support a sustainable future. Sustainable investment principles are a core element of our corporate culture and our investment beliefs, underlining our conviction that investing successfully includes taking Environmental, Social, and Governance (ESG) principles into account. This is aligned with our conviction that economic performance and sustainability can be fully aligned without compromising traditional risk-return metrics in favor of ESG metrics.

LGT CP's long-held commitment to ESG began in 2003, when we first began integrating a responsible investment clause into the governing documents of several of our investment programs. It authorized us to exclude investments that are substantially exposed to arms-related activities, violations of human rights, irresponsible treatment of the natural environment or other non-ethical business activities or conduct. In 2009, LGT CP launched its dedicated sustainable bond and equity offerings. In the same year, we also launched our proprietary ESG analytics tool, the LGT ESG Cockpit. Since 2013, LGT CP has published its own annual ESG Report to assess and communicate on the improvements made in ESG practices, highlighting examples of ESG best practices across various portfolios in private markets, liquid alternatives, insurance-linked securities, equities and bonds.

LGT CP became a signatory to the Principles for Responsible Investment (PRI) in 2008. Additionally, the firm joined the Net Zero Asset Managers (NZAM) initiative in March 2021, committing to the goal of net zero emissions by 2050. Our signatory disclosure information can be found on NZAMs website [here](#). For more information on our Climate Action framework see our [Climate Action Strategy](#).

We further support the Sustainable Development Goals (SDGs). For several of our investment programs we have clear commitments to invest only in firms that have a positive impact on the SDGs.

At LGT CP, we invest into a multitude of different asset classes and adapt our general approach to ESG and sustainability according to the specifications and requirements of each asset class. We implement our investments through a direct investment approach or in partnership with a select number of external managers, which results in different levels of transparency and access to the underlying exposures. This requires us to use different methodologies for the implementation of our ESG criteria.

This document explains LGT CP's overall approach to integrating ESG criteria into the investment process, as well as the governance setup and other related topics.

Figure 1: LGT CP's continuous development of ESG processes spanning two decades



1 "A guide to ESG implementation in private equity" (GPs = General Partners)

2 Tycho Sneyers, Managing Partner at LGT Capital Partners, joins PRI Board

3 "From ESG to SDGs – the road ahead", a survey of investors in alternatives

4 Task Force on Climate-related Financial Disclosures

5 Sustainable Finance Action Plan (SFAP)

Source: LGT Capital Partners

# Scope

LGT CP's ESG policy is applicable to all companies and employees of LGT CP Group that are involved in the investment management processes applied to a variety of asset classes that include, but are not limited to, equities, fixed income, private markets, hedge funds and insurance linked strategies described in this policy. The policy provides a framework for identifying and managing ESG risks appropriately.

The detailed steps and requirements for ESG integration are laid out in separate internal instructions on the level of the individual business units. Those contain detailed process descriptions as well as further information on the investment process, decision-making, monitoring, reporting and risk management. An overarching internal ESG policy sets the framework for LGT CP's ESG principles, governance structure, ESG risk integration and management, ESG integration into different investment strategies and asset classes, as well as other ESG-related topics like disclosures and education.

Further, prospective investors should note that this policy is a guideline on the integration of sustainability and/or ESG-related factors in our investment process. Investors should refer to the offering documentation of an investment product to ascertain the specific ESG-related features pertaining to such product or prospective investment. Pre-contractual offering documentation will in each instance prevail over any statements made herein.

LGT CP commits to regularly reviewing and updating this ESG policy to ensure its alignment with emerging regulatory requirements and changing industry standards.

# Governance

At LGT CP, the following bodies are responsible for managing ESG-related matters:

- The Board of Directors (BoD);
- The Executive Committee (EC);
- The ESG Committee (ESGC);
- The ESG Sub-committees (ESGSC);
- The firm-wide ESG team; and
- The ESG Ambassadors.

## Board of Directors (BoD)

The BoD of LGT CP, as the most senior governing body, provides strategic leadership and oversight in ensuring the integration of ESG-related considerations in our overall strategy, risk management processes and investment decisions. The BoD is informed on ESG topics by the EC and by the ESG team co-heads at least on an annual basis.

## Executive Committee (EC)

The EC of LGT CP is responsible for the oversight of daily operations and defining steps to implement the BoD's strategic direction, including ESG. The EC and the fund management companies involved are responsible for the implementation of the prescribed standards defined by the board and the monitoring of legal and regulatory requirements and compliance with this policy. The EC and members of the involved fund management companies are informed on ESG topics by the ESGC minutes and by updates from the ESG team heads on a regular basis. .

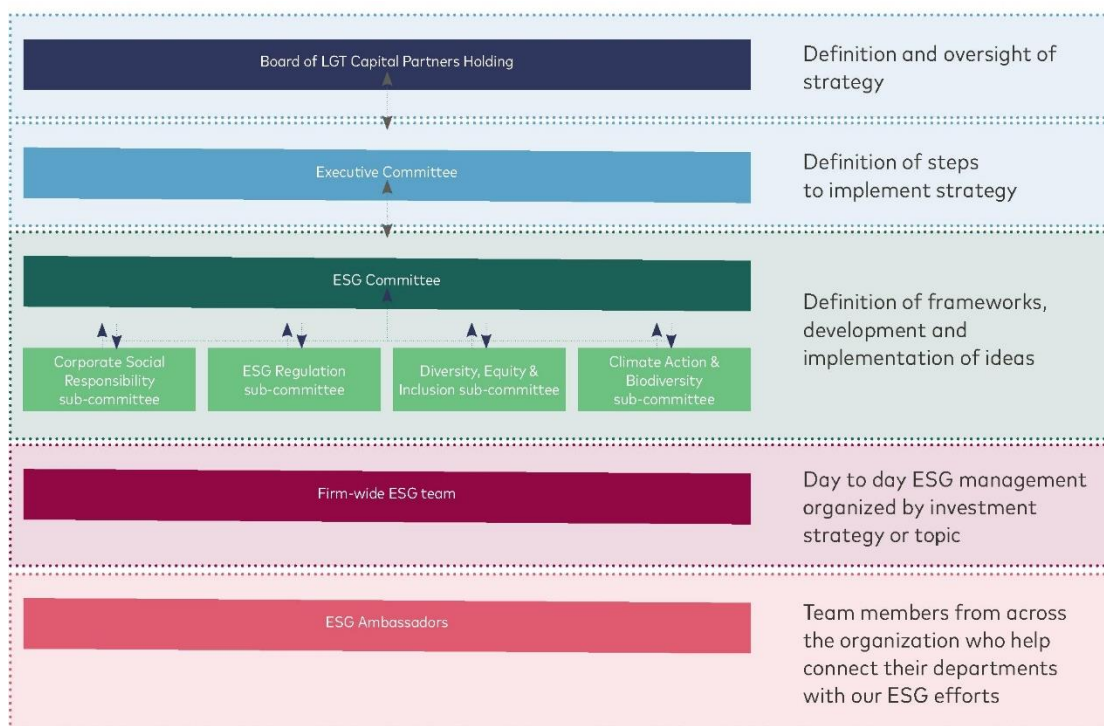
## ESG Committee (ESGC) and various ESG sub-committees (ESGSC)

The ESGC is responsible for executing the EC's decisions and coordinating policies and procedures across investment management, reporting, risk management and client services. The ESGC meets quarterly and reports regularly to the EC. LGT CP has established dedicated sub-committees within the ESGC to focus on specific areas, including, Climate Action & Biodiversity, ESG Regulation, Corporate Social Responsibility (CSR) as well as Diversity, Equity and Inclusion (DEI).

- Climate Action & Biodiversity Sub-Committee: responsible for climate and biodiversity related topics, specific emission reduction targets, climate risk framework and biodiversity roadmap development.
- Diversity, Equity & Inclusion Sub-Committee: responsible for all diversity, equity and inclusion topics.
- ESG Regulation Sub-Committee: initiates, coordinates, advises, oversees and challenges implementation of ESG regulation and ESG initiatives across our business units, investment products and the firm.
- CSR Sub-Committee: initiates, coordinates, advises, oversees and challenges implementation of CSR initiatives across the firm.

To ensure execution, communication and reporting on ESG issues, dedicated ESG roles ensure that ESG topics are part of the agenda of the business unit management team meetings. The Chief Risk Officer and the other employees of the Risk Management & Compliance department are actively involved in the ESGC and can attend the respective ESGSCs. The membership of these groups may change over time.

Figure 2: ESG governance chart



Source: LGT CP

### **Firm-wide ESG team**

Our ESG team brings together experts from across the firm to ensure sustainability is embedded in everything we do. Co-led by two experienced professionals, the team supports a wide range of investment strategies, from private to liquid markets, and specializes in ESG data and analytics.

To stay ahead of evolving standards and expectations, the team also works closely with colleagues focused on regulation, climate action, biodiversity, and communications. They meet regularly to share insights and align on key initiatives, helping us deliver thoughtful, responsible investment solutions to our clients.

### **ESG Ambassadors**

ESG Ambassadors are team members from across the organization who help connect their departments with our ESG efforts. Representing areas like portfolio management, legal, compliance, and operations, they meet quarterly to stay aligned on ESG updates and help share key initiatives across the firm.

# Climate Action commitment and net zero target

LGT CP joined the NZAM initiative in March 2021, which aims to unite the asset management industry to commit to a goal of net zero emissions by 2050. By joining the initiative, we have committed ourselves to transparent and rigorous accountability. As part of our Climate Action initiative, outlined in our [Climate Action Strategy](#), several strategies are aligned with the goal of net zero greenhouse gas (GHG) emissions by 2050. We take concrete actions either bottom-up through stringent security selection or top-down through reallocation of capital between asset classes.

Our Climate Action framework has four main levers to help us reach our climate-related targets: carbon budgeting, climate solutions, active ownership and the reallocation of capital, see explanations below.

The specific approach to implementation in a portfolio depends on:

- the nature of the asset class or the particular guidelines of a mandate,
- the availability of relevant data and robust methodologies, and
- whether it is implemented through direct investments or external managers.

We continue to work on these as we progress towards our goal of aligning portfolios with the Net Zero by 2050 Scenario (NZE) emission pathway from the International Energy Agency (IEA). With this approach, we aim to make a meaningful contribution to mitigating the damaging effects of climate change, while also enabling investors to benefit from attractive opportunities that arise from ensuing changes to the global economy.

## Carbon budgeting

Increasing exposures to single companies or entire sectors, whose emission pathways are aligned with the goal of net zero emissions by 2050.

## Climate solutions

We aim to invest in climate solutions, e.g. through allocations to green bonds and the renewable infrastructure segment. Further, our investment teams continue to identify investments that can make a positive contribution to mitigating climate change.

## Active ownership

Engaging with companies held in our direct strategies and with our managers is a priority. By actively using our voice, through both engagement and voting, we can help drive the necessary change.

## Reallocating capital

Moving capital away from concentrated transition and physical risk to strategies and sectors that are much richer in sustainable and climate-related investment opportunities. Based on our scenario framework, we aim to build climate-resilient portfolios.

# Biodiversity

Biodiversity, the variability within and between species and ecosystems, is declining at an unprecedented rate in human history due to pressure exerted through change in land and sea use, direct exploitation, climate change, pollution and invasive species. The world economic forum (WEF) estimates that over half of the global GDP moderately or highly depends on nature.

The financial risks associated with the loss of biodiversity can be characterized by physical risks, referring to physical damage to assets or loss of ecosystem services for production processes, and transitional risk, resulting from policy changes, legal developments, and technology changes.

LGT CP is considering biodiversity aspects in certain investment areas and continue to work on expanding the reach.

LGT CP monitors biodiversity-related Key Performance Indicators (KPIs) such as water usage and pollutants, and hazardous waste, and prioritizes positive impacts on SDGs for certain sustainable public market strategies. For these strategies, we incorporate biodiversity considerations into investment analyses and decisions alongside financial factors. In addition, by actively using our voice we can help drive the necessary change. Through engagement we advocate for responsible value chains and respecting and restoring biodiversity. It's important to note that our approach doesn't mandate that impacts on biodiversity must be explicitly positive.

For private debt, we apply a comprehensive exclusion list that excludes any activities that clearly have a negative impact on biodiversity, such as deforestation to produce palm oil or wood pulp, or companies that are involved in any non-sustainable economic activities to develop their business. Next, an assessment of biodiversity risks and opportunities are conducted and is taken into consideration ahead of any investment decision. For the assessment a third-party analysis tool, Altitude by AXA Climate is used. If any potential investee company is deemed to have material or potential biodiversity-related risks in its operational activities, including indirectly via its supply chain, we will not pursue the investment. If the investment team identifies minor risks or impacts and believes that strong mitigating actions are being taken by the management team or the majority shareholder, it can propose to take the opportunity forward.

LGT CP's Climate Action & Biodiversity sub-committee is the central body responsible for driving progress regarding biodiversity efforts, currently developing and approving a biodiversity roadmap.

# ESG implementation across asset classes

## Introduction

LGT CP has a strong focus on a holistic ESG assessment, while also taking concrete actions, wherever useful and relevant. For example, our funds exclude investments in companies associated with controversial weapons (anti-personnel mines, biological & chemical weapons, cluster weapons, or nuclear weapons, see our [exclusion policy on controversial weapons](#)) and in businesses related to thermal coal (see our [policy on coal](#)).<sup>1</sup> The thermal coal exclusion is one of our actions to combat climate change. The exclusions apply to all directly managed strategies, including staff investments.

LGT CP has a focus on selecting investments that reflect the firm's commitment to high standards on various ESG criteria. Regarding the implementation of ESG considerations into the investment process, different approaches are used, depending on the investment style and asset class, which are further explained below.

It is part of our philosophy that our investment teams are responsible for conducting both fundamental financial and ESG research for managers and companies. We believe that this combined assessment allows the analyst to have a holistic view and deep understanding of a manager or firm's risks and opportunities.

### The LGT ESG Cockpit

LGT's ESG Cockpit is an in-house developed, state-of-the-art tool. Based on a multitude of ESG raw data from a variety of providers, the tool enables the scoring of over 700 underlying data points, as well as measurement of environmental footprints, SDGs, net zero by 2050 alignment etc. Furthermore, the ESG Cockpit makes a comparison of the ESG performance of companies, portfolios, sectors and regions possible. The tool enables portfolio managers and analysts to understand and analyze the ESG scoring of the investable securities as well as the overall ESG footprint of a portfolio. Lastly, the tool allows for a continuous monitoring of the ESG quality of a security and an entire portfolio. In addition, the data used for the ESG Cockpit, which is provided by independent, external data providers, is periodically checked for plausibility to ensure that it is up-to-date and correct by means of several verification steps.

### Risk identification through controversy screening by RepRisk

The consideration of ESG issues is an integral part of our investment due diligence process. Our various investment teams are responsible for considering ESG when performing due diligence on investments.

We conduct a controversy screening using RepRisk, a leading data provider. RepRisk continuously and systematically monitors over 100'000 online information sources in more than 20 languages to identify negative news developments. Issues identified are integrated into the ESG score and help detect material ESG risks in a timely manner for further analysis and potential engagement by the responsible analyst. The screening covers both public and private companies.

### Investments via external managers

A substantial part of our investments across asset classes is done via external managers through either dedicated segregated managed accounts or commingled pools. These investments are subject to an ESG evaluation and risk assessment – both initially and on an ongoing basis.

ESG considerations are evaluated prior to each investment, using a proprietary due diligence questionnaire which we require each external manager to answer. When evaluating the answers, we focus on understanding and confirming the manager's ESG strategy and the way ESG and sustainability risks are being included in the firm's overall philosophy, business and specifically the investment processes. In this assessment, managers are scored on four key areas of ESG practice:

- Manager commitment through e.g., an ESG policy, commitment to industry initiatives like the PRI and setting ESG goals.
- Investment process focusing on the integration of ESG.
- Active ownership such as establishing KPIs, ESG responsibilities and value creation through ESG initiatives.
- ESG reporting on a portfolio company level and on an aggregate fund level.

The managers must explain their ESG approach, with answers being probed and verified. Managers receive a score of 1 to 4 (where 1 = Excellent and 4 = Poor) on each of the four areas, resulting in an overall rating for the manager. The manager rating is then documented in LGT CP's monitoring system and ultimately integrated into investment recommendations and decisions. This facilitates effective and continuous monitoring of managers on ESG over time and the identification of those who are ESG leaders, as well as those who need further encouragement. In principle, we do not invest with managers that have a 4-rating for their ESG approach. Active engagement with external managers is also part of the monitoring process, as the scoring process is repeated on a yearly basis.

In line with regulatory requirements, the above described ESG rating process is complemented with a bottom-up analysis of the portfolio constituents using available data and/or the ESG cockpit process. The additional insights serve to enhance ESG reporting in more detail, to further confirm or challenge the manager's ESG rating and to identify sustainability risks.

<sup>1</sup> Applies to all directly managed strategies

# Focus on private markets

## Private equity direct investments

For our co-investments, we assess and evaluate each investment opportunity, undertaking an ESG screening to identify risks and opportunities early in the process. We use an ESG matrix to ensure consistency in approach, which includes a review of the company's business model and its products and services. We also carry out a materiality review of the various ESG factors, using Sustainability Accounting Standards Board (SASB) materiality maps for different industries and sectors. This analysis is combined with a consideration of any ESG controversies, see Risk identification through controversy screening by RepRisk. Furthermore, we assess the carbon footprint of the company using available data or public market industry averages as a proxy for the company's actual footprint. In a final step, the team considers LGT CP's ESG assessment of the private equity manager. Each of these factors is quantitatively scored, culminating in an ESG rating for the company, based on a scale of 1 to 4 (where 1 indicates an Excellent ESG score with low risk and 4 indicates a Poor ESG score with high risk).

Ahead of the final IC meeting, the team conducts a detailed analysis of ESG-related due diligence reports. This often comprises environmental due diligence, a legal and compliance review and human resources due diligence. When the team identifies an ESG-sensitive issue, it seeks the advice of the firm's ESG firm-wide team, which is subsequently reflected in the final investment recommendation. The summarized findings are part of the input for the final investment committee meeting, which includes the ESG score for the company developed during the screening process (as described above). Each year certain co-investment opportunities are not pursued at this stage due to ESG findings.

In the context of the regular monitoring activities of the investments, the investment team monitors ESG aspects of the investment and follows up as required. This includes monitoring for ESG controversies, as described in Step 1. We also collect ESG KPIs for our investments, which provides us with insights on where companies and management teams are focusing and what indicators are relevant to our portfolio companies. The KPIs are based on the ESG Data Convergence Project and requirements from sustainable regulations. Annual comparison shows how the KPIs develop over time.

## Private market secondary transactions

Wherever LGT CP portfolios invest into private markets secondaries, any due diligence analysis and investment decision includes an ESG analysis of the transaction. The involved fund managers are analyzed by considering their LGT CP ESG manager ratings and in addition, a controversy check (see chapter on Risk identification through controversy screening by RepRisk) is conducted for the most significant assets included in the transaction.

## Private debt direct investments

The first step of assessing ESG matters at the company level is through the investment team's evaluation of the investment opportunity. This is done using a seven-factor ESG scoring model that assesses each element on a scale of 1 to 4, with the final ESG risk score calculated as a weighted average (1 being the best outcome; 4 the worst) of all seven factors. This includes the following assessments:

- Proprietary macro due diligence – including the screening of controversies, identified ESG sensitivities and ESG assessment of the sponsor. In addition, the SASB framework is used for a materiality review of the various ESG factors.
- Impact assessment – an assessment of the SDG impact, negative or positive as well as an examination if the company aligns with the mandatory principal adverse impacts (PAI) indicators.
- Climate resilience – use of the LGT PD climate resilience framework, CO2 assessment to systematically consider climate change risks, while assessing the materiality of these risks for any given business.
- Biodiversity risk profile – assessment of biodiversity impacts and dependencies, as well as the associated risks and opportunities, in investment decisions with the help of the third-party analysis tool Altitude by AXA Climate, which includes the provision of estimated MSA.km2 calculations.

We negotiate ESG reporting provisions, which are typically included in the term sheet and subsequently in the loan agreements. Such provisions are generally in line with the sponsor's ESG requirements. These include reporting on 15 different ESG-related key performance indicators (KPIs), ranging from carbon footprint to net job creation statistics, diversity metrics, training practices, board composition and practices, and other indicators. The carbon footprint reporting includes total carbon emissions (metric tons of CO2 per year) as well as the company's CO2 intensity (emissions per million euros invested)

During our investment period, we perform annual ESG surveys for all our portfolio companies, gathering responses on all key ESG metrics in line with industry standards and regulatory considerations. This includes the collection and preparation of aggregated ESG and carbon footprint KPIs on an annual basis. As part of this practice, we share the results of the ESG campaign with each portfolio company for it to benchmark itself, and we also share the results with our investors and other stakeholders to facilitate discussions and comparisons. Further, we use board observer seats to (i) make sure ESG topics are included on the management's agenda and (ii) to promote best practices through our dialogue with shareholders and key decision makers.

# Focus on impact investments in private markets

## Impact investments in private markets

Impact investments are characterized by an explicit intention to generate positive, measurable social and/or environmental impact alongside a financial return. LGT CP sees strong alignment between positive, sustainable impact and risk-adjusted returns. For our impact investments, we target commercial private markets/private equity returns in investments with business models that generate a clear and measurable positive impact.

The impact investment process follows two parallel streams: in-depth investment due diligence and deep impact due diligence.

The process ensures a consistent approach in impact verification and underwriting. Furthermore, it minimizes unconscious biases, ensuring both the impact and financial investment recommendation stand independently without sacrificing impact or returns. Finally, it guarantees a deep functional expertise for the respective work streams.

LGT CP has developed a proprietary Impact Management Framework for carrying out due diligence on impact investment opportunities. Towards this end, we use an Impact Scorecard to assess both positive impact and impact risks, arriving at an impact score for each potential investment. The focus areas of the Impact Scorecard depend on the type of investment.

For primary impact investments (fund investments) we focus on the following four areas:

- Impact strategy – does the manager have a robust impact thesis? Is the impact thesis aligned with the manager's overall investment thesis? Is it aligned with LGT CPs impact objectives?
- Impact integration into operations – does the manager consistently apply an impact framework? Does it align with industry standards? Are negative impacts and ESG risks considered?
- Monitoring and reporting – does the manager actively monitor impact results? Are meaningful KPIs and targets defined? Is regular reporting provided?
- Team capabilities and resources – employees with commitment and knowledge of the impact strategy? Adequate resources to manage and monitor impact results?

For direct impact investments (co-investments), we focus on the following four areas:

- Alignment – how aligned is the investment thesis with the SDGs? What is the strategy? Which SDGs is the investment opportunity targeting?
- Reach – what is the scale of the investment proposition? The depth? And what systemic change might there be?
- Inclusiveness – how affordable is the proposition to the wider consumer base? What access does it have to customers? What is the need for the offering?
- Risk – what are the exit options when it comes to responsibility? Any execution risks? Any ESG risks?

The deal team assesses a range of information collected in the due diligence to compile the answers to the questions. The responses must be rooted in evidence and evolve through multiple iterations as the team progresses with diligence and builds insights into the investment opportunity. The sources of information consist of the manager in the transaction, company management, third-party due diligence providers, industry experts as well as various other sources in the LGT CP network.

# Focus on Insurance-Linked strategies (ILS)

ILS as an asset class is highly exposed to climate change risks. An increase in likelihood and/or severity of weather-related natural disasters has a significant impact on insured losses. On the other hand, the (re-)insurance industry, including the ILS industry, are creating financial incentives that encourage societies to adapt to a changing climate. Providing reinsurance capital in the form of ILS encourages insurers to work with homeowners on mitigating risk through better construction techniques and preventative measures.

Our ESG framework for counterparty due diligence applies a four-step process that helps to identify and engage with companies that are resilient to a wide range of ESG-related risks and that have a proactive approach towards managing environmental factors in their business.

- The first step is to generate an ESG score of the counterparty, using LGT ESG Cockpit.
- The second step is to collect the counterparty's feedback to put the ESG score into perspective of the company's business activity.
- The third step is to review the ESG score on a frequent basis and to monitor changes over time.
- The fourth step is to make counterparties with a deteriorating ESG profile aware of the issue and take action if necessary.

The ESG due diligence framework helps our ILS business to identify potential business or reputational risks and leads to the exclusion of counterparties with substantial ESG risks.

# Focus on liquid markets sustainable investments

When our sustainable fund strategies within public securities invest directly into individual securities (such as equities or bonds), the financial analysis is combined and supplemented with a thorough ESG analysis.

The first step of the investment process for our sustainable strategies is negative screening. Companies that generate income from tobacco, gambling, arms, pornography, nuclear power production, thermal coal production, oil and gas activities or that are UN Global Compact violators are excluded (see our [Sustainable funds positioning paper](#)). The remaining and still diverse universe is then scored on ESG using our the LGT ESG Cockpit (see chapter The LGT ESG Cockpit).

In the second step, the LGT ESG Cockpit enables us to assess the ESG performance of companies or sovereigns expressed in a numerical ESG score ranging from 0 to 100, which ultimately results in a ranking. For companies, we exclude the companies scoring in the bottom 25% at this stage and focus on the remaining 75% of the universe. By focusing on this segment, we include companies that already score high in ESG performance and those that have upside potential, while excluding those that lack commitment.

For the ESG score, we identify both ESG risks and opportunities. We believe this holistic view is important as we want to avoid investing in companies that have a positive impact with their products, but are poorly run, and vice versa. Furthermore, we are convinced that a holistic approach is key to increasing risk-adjusted returns. Our approach considers a company's ESG performance through its operations, its products and services, and ESG controversies (see Figure 3).

- **Operations:** Companies are screened for a positive ESG commitment based on 20+ KPIs. For example, we see such

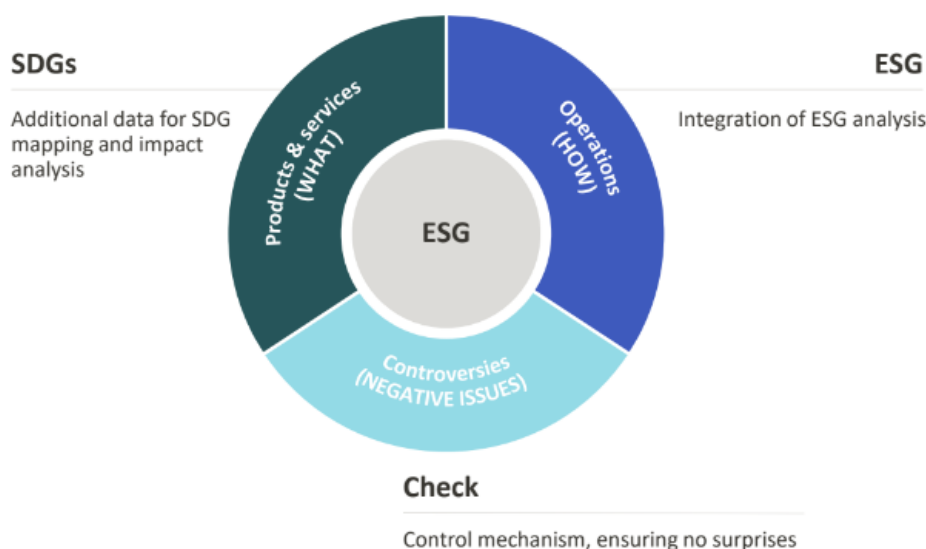
opportunities in companies that actively pursue strategies to reduce emissions, improve energy efficiency, adhere to good employment conditions, provide training and follow transparent corporate governance practices. The KPIs that are applied, and their respective weights, vary across different sectors according to the particular characteristics of a specific sector. For instance, carbon emission levels are an important metric for utilities, whereas training and development metrics are, relatively, more important for IT services. This enables us to focus on factors that are meaningful and material in assessing the ESG characteristics of the company.

- **Products and services impact:** The impact of a firm's product and services are mapped against the SDGs that are relevant to those product categories. The impact is measured based on the severity of the impact as well as the revenue share derived from these outputs.
- **ESG controversies:** Negative news flow and current controversies relating to a company are monitored (see chapter Risk identification through controversy screening by Re-pRisk). Issues identified are integrated into the ESG tool and translated into a numerical penalty which is deducted from the original ESG score.

The final ESG scoring provides a consistent, quantitative approach for defining a universe of possible securities for our portfolio managers and sector specialists.

Any regulatory requirements, such as the consideration of PAI of investment decisions on sustainability factors or restrictions, can be applied within this concept to further steer the portfolio towards specific ESG targets.

Figure 3: ESG analysis of companies



Source: LGT CP

# Active Ownership

Active ownership is an integral part of LGT CP's ESG approach. We are convinced that by being an active owner and engaging with our managers and companies, we can drive long-term value, manage risk and create sustainable growth for all stakeholders.

## Engagement with direct investments in liquid markets

As an active direct investor in equities and bonds, we are in continuous dialogue with companies in our investment universe. This dialogue allows us to express our expectations as a sustainable investor, while enabling companies to provide us with further insights on their ESG practices. Our active ownership activities can be divided into four categories shown in the Figure 4 below.

Voting in annual general meetings of portfolio companies is an important tool for equity investors to voice their opinions and exercise influence. It can also act to increase pressure on companies, for example, by voting against management, should engagement efforts not lead to the expected progress.

LGT CP closely follows the Socially Responsible Investing (SRI) Proxy Voting Guidelines provided by ISS. We use our voting rights to:

- improve the level of reporting disclosure,
- align management compensation to ESG KPIs and emission targets,
- support strategic measures to accelerate or adapt to a low carbon business model, and
- support increased diversity across all levels of an organization.

Our Active ownership guideline can be found on our website [here](#).

## Engagement with managers

Ongoing engagement with external managers is an essential part of our approach to ESG, facilitated by our annual assessment of such managers, which helps to identify instances of ESG excellence and flag areas for improvement. One focus area for manager engagements is around the reduction of portfolio GHG emissions. This involves setting carbon budgets aligned with net zero, assessing where the portfolios currently stand and collaborating on how the emissions can be reduced as necessary.

## Collaborative engagements

Shareholder engagement enables a board and management to gain valuable insights, enhance transparency, address concerns, and manage stakeholder relationships effectively. As an active shareholder, we work together with international partners, networks and initiatives to raise awareness for climate action issues and enhance analytical tools.

For example, LGT CP participates in the following initiatives:

- Carbon Disclosure Project (CDP)
- Climate Action 100+
- Nature Action 100
- PRI Advance.
- IIGCC net zero engagement initiative
- ESG Data Convergence Initiative (EDCI)

Figure 3: Holistic approach: active ownership – one pillar of our ESG activities



# Risk management and compliance

## Risk management

Risk management forms an integral part of LGT CP's investment and ESG-process. As part of such risk management, sustainability risks form an important dimension of our risk management philosophy.

For the integration of sustainability risks, we follow two approaches. First, we monitor compliance with restrictions set by regulators, clients or other external and internal rules and guidelines on an ex-post basis. Second, we help, support and challenge the investment units in the performance of their tasks by modeling and testing risks in the portfolios and all underlying exposures on an ex-ante basis. Both approaches integrate ESG and sustainability risks.

Post-investment monitoring of ESG restrictions and guidelines.

- The Risk Management team employs tools and processes to measure and monitor ESG restrictions in the portfolios. This includes verification of compliance with exclusion lists and the correct implementation and adoption of rules, guidelines and restrictions to reach certain ESG qualifications (e.g. to fulfill SFDR requirements or to meet the standards of the NZE by 2050 Scenario. Where specific benchmarks or further KPIs and criteria have been agreed, Risk Management also ensures adherence to such standards. In the case of external managers, Risk Management will also review and test the managers' ratings that result from the annual ESG monitoring and execute the bottom-up rating of portfolios, to the extent transparency is available.

Pre-investment analysis of managers and testing of portfolios.

- Risk Management, particularly for external managers, integrate and analyze a manager's ESG rating in the portfolio before the final investment committee decision, in order to ensure that only managers with an appropriate and suitable ESG process are approved for a portfolio, as well as post investment. Especially for portfolios that adopt a more rigorous ESG standard, such as "ESG promoting products" under Article 8 SFDR and/or "Sustainable products" under Article 9 SFDR, managers will have to adhere to both rigorous standards and high-portfolio ESG scorings.

Modeling of climate risk in multi-asset portfolios.

- Risk Management together with the Quantitative Research team is continuously monitoring the robustness of LGT CP's key multi-asset portfolios and analyzing the impact of various risk factors under stress scenarios. A specific risk scenario has been developed to model the effects of climate change on the various asset classes to gain a better understanding of the effects and offering a better basis for asset allocation decisions.

## Compliance

The Compliance team contributes to the risk management framework and plays a key role in the periodic quality review of products (e.g. marketing material review process for products promoting environmental or social characteristics and funds with sustainable investment objectives).

# Education and performance management process

## Education

The importance of ESG integration to LGT CP as a firm and in our investment process is reflected in the fact that LGT CP employees are expected to continuously enhance their skills, knowledge and expertise around ESG topics. Towards that end, we typically address ESG topics at least twice a year in our firm wide offsite, where the latest ESG trends, techniques and strategies are discussed. We organize separate ESG training sessions for new team members, including investment professionals, throughout the year.

Internal ESG education programs help enhance knowledge and understanding of ESG topics among our staff. The ESG education sessions focus on current topics that are relevant for all employees, given that we want everyone to understand the importance of ESG for our firm. The training modules, along with further supporting documents, are available for all employees at any time on our intranet.

In addition, employees can also undertake external training and gain ESG-related qualifications, such as the CFA Institute's Certificate in Sustainable Investing or the CFA Institute's Certificate in Climate Risk, Valuation, and Investing..

## Performance Management Process

The importance of integrating ESG factors for LGT CP as a firm and our investment behavior is reflected in the fact that LGT CP promotes the ESG behavior of employees as part of the regular performance management process, using defined ESG targets and financial incentives in the overall assessment.

To implement this goal, LGT CP has included overarching ESG targets in the process of the regular performance reviews, which are further specified and broken down by the respective line managers depending on the business area and function.

Hence, LGT CP expects all staff to show awareness of the firm's ESG strategy and encourages further sustainable behavior through sustainability goals and by setting incentives in relation to remuneration structure for certain staff members, for example portfolio managers of impact or sustainable strategies.

# Disclosure, reporting and monitoring

## Disclosure and reporting

We aim to ensure information disclosed on the LGT CP website is provided in a manner that is easily accessible, comprehensible, fair, clear, and not misleading. To promote transparency and accountability in ESG investments LGT CP makes specific ESG and sustainability-related disclosures towards end investors and other stakeholders.

We publish and maintain company-level related information and respective statements about:

- the policies on the integration of sustainability risks in its investment decision-making process,
- whether and how LGT CP considers the principle adverse impacts of investment decisions on ESG factors,
- how its remuneration policies are consistent with the integration of sustainability risks, and
- the voluntary commitments towards ESG where LGT CP outlines the numerous public and private initiatives it is committed to.

Furthermore, LGT CP publishes and maintains the LGT CP website and/or [www.fundinfo.com](http://www.fundinfo.com) with product-level related information such as the pre-contractual disclosures with regards to Article 6, 8 and/or 9 SFDR, as applicable.

## Monitoring

The EC of LGT CP monitors compliance with the legal and regulatory requirements and compliance with this directive. The BoD is informed on an annual basis by the EC.

# Industry collaboration

LGT CP collaborates with clients and other stakeholders in the investment industry to support the broader acceptance and implementation of responsible investing.

In 2008 LGT CP became an early signatory to the PRI. Since 2018 one of our managing partners is a member of the Board of PRI.

In March 2021, LGT CP joined the NZAM initiative and made a commitment to reach net zero GHG emissions by 2050 across all assets under management. We report annually on the progress made against our targets and we submit the results to the respective NZAM network partners for review. This ensures that our approach is based on a robust methodology and in line with our net zero commitment.

For private markets, where data is not as readily accessible as in liquid markets, we participate in investor collaboration to advance the data gathering process and standardization.

LGT CP is part of several industry initiatives focused on active ownership. For more information see our most recent publications on this subject on our website.

LGT CP adheres to business conduct rules and international standards, including the United Nations Global Compact (UNGC), United Nations Universal Declaration of Human Rights (UDHR) and the OECD Principles of Corporate Governance.

**Important information**

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